

Message Text

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ACTION L-03

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FM AMEMBASSY NASSAU

TO SECSTATE WASHDC 8569

C O N F I D E N T I A L NASSAU 1383

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E.O. 11652: GDS

TAGS: CFED EFIN BF

SUBJ: SEC INVESTIGATION OF ICD

REF: A. STATE 209018 B. NASSAU 1165

1. EMBASSY ECON OFFICER ACCOMPANIED SEC REPS, HERLIHY LEVINE AND HAHN TO MEETINGS HELD IN NASSAU AND FREEPORT WITH ICD MANAGEMENT ATTORNEYS FOR ICD AND JERRY GOLDSMITH, AND GOVERNOR OF CENTRAL BANK OF THE BAHAMAS T. DONALDSON. ALTHOUGH PROGRESS WAS MADE IN RESOLVING SOME MISUNDERSTANDINGS, ICD PROVIDING FURTHER INFORMATION, AND FURTHER DRAFTING OF CONSENT DECREE, TWO IMPORTANT ISSUES REMAIN UNRESOLVED, I.E. SEC ACCESS TO PERTINENT PRICE-WATERHOUSE AUDIT RECORDS AND PROCEDURE TO BE FOLLOWED ON SUBMISSION OF INDEPENDENT AUDIT REPORT.

2. AFTER MEETING ALONE WITH DONALDSON (GOVERNOR OF CENTRAL BANK), SEC REPS BELIEVED THAT GCOB HAD NO OBJECTIONS TO SEC ACCESS TO RELEVANT PRICE WATERHOUSE RECORDS. ICD MANAGEMENT, EDWARD ST. GEORGE AND JACK HAYWARD AND THEIR ATTORNEY ROGER MINIHAN, JOINED MEETING WITH DONALDSON, HOWEVER, AND THE QUESTION OF ACCESS TO PRICE-WATERHOUSE WAS NOT CLARIFIED IN THEIR PRESENCE. DURING MEETING IN FREEPORT FOLLOWING DAY, WHICH DONALDSON DID NOT ATTEND, ICD MAINTAINED THAT WHILE IT HAD NO OBJECTION TO SEC ACCESS TO PRICE-WATERHOUSE RECORDS, THE GOVERNMENT DID.

3. THE SECOND ISSUE CONCERNS SUBMISSION OF THE INDEPENDENT
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AUDIT REPORT. ICD WANTS IT TO BE SUBMITTED TO GOVERNOR GEN-

ERAL OF THE BAHAMAS BEFORE IT IS SUBMITTED TO SEC WITH GCOB HAVING RIGHT TO MAKE DELETIONS. SEC POINTS OUT THAT THIS IS UNNECESSARY BECAUSE GCOB WILL ALREADY HAVE APPROVED CONSENT DECREE AND BECAUSE SEC IS PREPARED TO GO TO COMMISSION BEFORE REPORT IS WRITTEN AND REQUEST THAT NAMES OF INTENDED RECIPIENTS OF POLITICAL PAYMENTS NOT BE MENTIONED IN THE REPORT. REPORT WILL ACTUALLY BE WRITTEN BY ICD IN ANY CASE, BASED ON RESULTS OF INDEPENDENT INVESTIGATION. SEC BELIEVES THIS SHOULD SATISFY BOTH ICD AND GCOB CONCERNS OF NEGATIVE PUBLICITY IF REPORT IS MADE PUBLIC.

4. IT WAS AGREED THAT SEC RESOLVE THESE TWO ISSUES DIRECTLY WITH GOVERNMENT THROUGH THE EMBASSY. EMBASSY ECON OFFICER WILL TRY AND OBTAIN CLARIFICATION AND APPROVAL TO PROCEED ACCORDING TO SEC'S PREREQUISITES FROM CENTRAL BANK GOVERNOR TIM DONALDSON. MEETING IS SCHEDULED FOR 10:30 AM, TUESDAY, AUGUST 31. IF UNSUCCESSFUL, NEXT APPROACH WOULD BE WRITTEN REQUEST TO ATTORNEY GENERAL ADDERLEY. ICD ATTORNEY MINAHAN WILL MEET WITH SEC REPS IN WASHINGTON ON THURSDAY, SEPTEMBER 2 TO CONTINUE DRAFTING OF CONSENT DECREE DOCUMENTS AND TO WORK OUT REMAINING MINOR ISSUES.

5. EMBASSY COMMENT: EVEN IF ISSUES OUTLINED ABOVE ARE RESOLVED AT DONALDSON LEVEL, EMBASSY HAS SOME QUESTIONS IF CONSENT DECREE SCENARIO WILL EVER MATERIALIZE. SEC REPS STRONGLY SUSPECT THAT ICD RELUCTANCE TO INDEPENDENT AUDIT REPORT STEMS FROM FACT THAT MONIES PROBABLY WERE USED FOR POLITICAL CONTRIBUTIONS AND/OR PAYOFFS AND THAT THAT REVELATION WOULD EXPOSE THEM AS HAVING LIED TO BOTH GCOB AND SEC.

6. IN DISCUSSION WITH EMBASSY OFFICER, ST. GEORGE STATED THAT HIS RELUCTANCE TO FOLLOW CONSENT DECREE SCENARIO INCLUDING INDEPENDENT COUNSEL INVESTIGATION IS BASED ON HIS CONCERN THAT IF MATTER WERE TO BECOME PUBLIC BEFORE ELECTIONS -- EVEN IF NO NAMES ARE MENTIONED IN REPORT OF INTENDED RECIPIENTS -- THE VERY EXISTENCE OF A DOLS 3 MILLION "SLUSH" FUND WOULD PRODUCE A PUBLIC OUTCRY AND GIVE GOVERNMENT A BIG POLITICAL PROBLEM. ST. GEORGE HAS NOT YET RULED OUT POSSIBILITY OF PURSUING OTHER COURSES OF ACTION OTHER THAN CONSENT DECREE I.E. SUING SEC, REMOVING ICD FROM SEC JURISDICTION
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AND ANY OTHER ACTION WHICH HE BELIEVES COULD BE SO TIME CONSUMING AS TO TAKE THEM WELL BEYOND ELECTION WHEN ANY POLITICAL IMPACT WOULD BE GREATLY REDUCED. HE ALSO STATED FEAR THAT ONCE SEC ACTION WAS COMPLETED THE HOUSE WOULD THEN CALL FOR A ROYAL COMMISSION TO INVESTIGATE ICD. ST. GEORGE WILL, OF COURSE, FOLLOW GCOB'S DECISION AS TO HOW ISSUE SHOULD BE RESOLVED.

7. IT IS QUITE CLEAR THAT GCOB DECISION ON THIS MATTER IS THE PRIME MINISTER'S DECISION. IF, HOWEVER, CONSENT DECREE SCENARIO IS NOT FOLLOWED - EITHER BECAUSE ICD AND/OR GCOB WILL NOT AGREE TO SEC PREREQUISITES, OR BECAUSE CONSENT DECREE WOULD LEAVE OPEN QUESTION OF POLITICAL PAYMENTS - ANY ACTION WHICH SEC CHOOSES TO TAKE AGAINST ICD WOULD PROBABLY GO THROUGH ATTORNEY GENERAL CHANNEL, AND, AS DEPT. KNOWS, ADDERLEY'S ATTITUDE ON THIS QUESTION COULD DIFFER SUBSTANTIALLY FROM THE PRIME MINISTER'S (SEE REFTEL B).
TAYLOR

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